

DISCLOSURE IN SWITCHING TRANSACTIONS

“Switching” activity involves the movement of an investor from one product to another. The move can be from one mutual fund to another; from one variable annuity to another; or from a mutual fund to a variable annuity (or vice-versa). If Indexed Annuities are being marketed as a replacement for any security, then the Kentucky Division of Securities will also view this transaction as “switching” activity. The following information and protocol are recommended as a minimum standard of what information should be conveyed, when it should be conveyed and the manner of proof that the information has been given to the investor (signature requirements).

- 1. CLEAR IDENTIFICATION OF THE INVESTMENTS BEING SOLD AND PURCHASED, INCLUDING FULL NAME OF MUTUAL FUND, VARIABLE/ANNUITY PRODUCT, TYPE OF SHARES, OPTIONS, ETC...**
- 2. CLEAR DISCLOSURE OF ANY AND ALL SURRENDER CHARGES, REDEMPTION FEES, OR OTHER COSTS IN DOLLAR AMOUNTS AND IN PERCENTAGE OF INVESTMENT VALUE OF THE PRODUCT BEING SOLD.**
- 3. CLEAR DISCLOSURE OF ANY NEW OR ADDITIONAL COMMISSIONS, SALES CHARGES, TRANSFER FEES IN DOLLAR AMOUNTS AND PERCENTAGE OF INVESTMENT VALUE OF THE PRODUCT BEING PURCHASED.**
- 4. CLEAR DISCLOSURE OF THE RECIPIENT OF ANY COMMISSIONS AND/OR FEES ASSOCIATED WITH THE SWITCH.**
- 5. IN THE CASE OF VARIABLE/ANNUITY PRODUCTS, CLEAR DISCLOSURE OF THE COSTS OF ANY AND ALL ADDITIONAL RIDERS, GUARANTEES, LIVING OR DEATH BENEFITS ASSOCIATED WITH THE PRODUCT(S) INTENDED TO REPLACE THE ORIGINAL, EXPRESSED IN DOLLAR AMOUNT AND PERCENTAGE OF PRINCIPAL.**

- 6.** IN THE CASE OF VARIABLE/ANNUITY PRODUCTS, CLEAR DISCLOSURE OF THE LOSS OF EXISTING BENEFITS, SUCH AS LOSS OF THE DEATH AND/OR LIVING BENEFIT OR OTHER CONTRACTUAL BENEFITS, EXPRESSED IN DOLLAR AMOUNT AND PERCENTAGE OF PRINCIPAL.
- 7.** IN THE CASE OF VARIABLE/ANNUITY PRODUCTS, CLEAR DISCLOSURE OF THE LIQUIDITY LIMITATIONS ASSOCIATED WITH THIS TYPE OF INVESTMENT.
- 8.** IN THE CASE OF ANY PRODUCT THAT IS SOLD WITH A “BONUS”, CLEAR DISCLOSURE OF THE CONDITIONS UNDER WHICH THE “BONUS” WILL BE APPLIED.
- 9.** CLEAR DISCLOSURE OF THE FACT THAT REDEMPTIONS OCCURRING IN TAXABLE ACCOUNTS MAY RESULT IN TAX LIABILITIES TO THE ACCOUNT HOLDER.
- 10.** CLEAR DISCLOSURE THAT THE ACCOUNT HOLDER MAY BE SUBJECTED TO THE PAYMENT OF A 10% PENALTY TAX FOR EARLY REDEMPTION.
- 11.** THE SWITCH FORM SHOULD CONTAIN SPACES FOR (1) THE CLIENT’S SIGNATURE AND DATE; (2) THE AGENT OF RECORD’S SIGNATURE AND DATE; (3) THE SUPERVISING PRINCIPAL’S SIGNATURE AND DATE.
- 12.** A COPY OF THE SWITCH FORM SHOULD BE PROVIDED TO THE CLIENT.
- 13.** A SWITCH FORM SHOULD BE PRESENTED TO THE CLIENT AT THE TIME OF THE SWITCH DECISION SO THE CLIENT IS FULLY INFORMED OF ALL COSTS AND DISCLOSURES.